

Parliamentary Joint Standing Committee on the National Disability Insurance Scheme

ADDITIONAL INFORMATION REQUESTED OF THE SCHEME ACTUARY

20 June 2014

Updated Responses as at 7 July 2014

No.	Question	Response
1	Provide an overview of your responsibilities under subsection 180B of the <i>National Disability Insurance Scheme Act 2013</i> .	<p>In overview, in keeping with the intention of the National Disability Insurance Scheme (NDIS) to be governed according to insurance principles, it is the responsibility of the Scheme Actuary to assess, monitor and report on the financial sustainability of the NDIS, and to identify and assess risks to that financial sustainability, and the causes of those risks.</p> <p>This responsibility leads to the following component requirements:</p> <p><i>Financial sustainability - S180B(1)</i></p> <ul style="list-style-type: none"> • to assess the financial sustainability and associated risks annually, as well as trends in provision of services outside of the NDIS, • to consider the causes of any risks or trends which may have an impact on scheme financial sustainability • to estimate future expenditure of the scheme, and prepare an annual report on findings regarding financial sustainability. <p><i>Quarterly report and assessment of future expenditure - S180B(2)</i></p> <ul style="list-style-type: none"> • to undertake a quarterly estimate of the future expenditure of the NDIS, and provide a report to the National Disability Insurance Agency (NDIA) Chief Executive Officer (CEO) (who must pass this onto the NDIA Board) <p><i>Requests for actuarial information or advice - S180B(3)</i></p> <ul style="list-style-type: none"> • to provide actuarial information or advice on request from the CEO or the NDIA Board <p><i>Significant concerns - S180B(4)</i></p>

		<ul style="list-style-type: none"> to bring to the attention of the NDIA Board any significant concerns I might have regarding the financial sustainability of the NDIS or the risk management processes of the NDIA
2	<p>What you understand by the phrase 'financial sustainability of the NDIS'?</p>	<p>A definition of financial sustainability may be something like “a state where:</p> <ul style="list-style-type: none"> the scheme is successful on the balance of objective measures and projections of economic and social participation and independence, and on participants’ views that they are getting enough money to buy enough goods and services to allow them reasonable access to life opportunities - that is, reasonable and necessary support; and contributors think that the cost is and will continue to be affordable, under control, represents value for money and, therefore, remain willing to contribute.” <p>The notion of financial sustainability also implies both a short-term and long-term perspective on the consideration of the future expenditure of the scheme. The NDIS is intended to provide a lifetime perspective on participants’ outcomes, and therefore the scheme must look forward as well as consider the short term cash flows.</p>
3	<p>In general terms, what do you identify as the ongoing risks to the sustainability of the NDIS?</p>	<p>The duties of the Scheme Actuary are set out in section 180B of the NDIS Act. The Scheme Actuary is responsible for, among other things, assessing the financial sustainability of the National Disability Insurance Scheme (NDIS). In this context, risks relate to the following, and their supporting systems:</p> <ul style="list-style-type: none"> the need for greater clarity and consistency around eligibility and available support, particularly with regard to episodic type disability, early intervention, and support services which may be more appropriately delivered by other portfolios such as health, aged care, education, housing or transport;

		<ul style="list-style-type: none"> the need for a consistent and objective link between participant reasonable and necessary support needs and their resource allocation package, within the overall funding envelope;
4	<p>What is the basis upon which you make quarterly estimates of future expenditure of the NDIS, as required under subsection 180B(2) of the Act?</p>	<p>As experience emerges, NDIS participant and utilisation data will be used to develop time-series trend analyses and actuarial models to project future utilisation and expenditure. Because the NDIS is still some way from a mature scheme, an approach to future estimates must currently seek a balance between the emerging experience and the initial cost estimates which are based on survey and census data. Moreover, within the trial period and even up to full scheme roll out, the agreed phasing timetables will influence emerging trends and future expenditure and also needs to be considered in the actuarial projections.</p>
5	<p>Provide information on the type of research and inquiry that you may conduct to consider the causes of the risks to the financial sustainability of the NDIS (subparagraph 180B(1)(a)(iii)(b) of the Act).</p>	<p>Subparagraph 180B(1)(a)(iii)(b) of the Act refers to the cause of risks in any trends in provision of supports to people with disability otherwise than through the NDIS (for example, trends in the provision of informal supports and supports provided through support services generally available to any person in the community).</p> <p>As a general comment, the provision of support through mainstream and informal services is to be encouraged and supported, in order to protect against inappropriate and over utilisation of the NDIS. It is therefore very important to monitor the trends in this service provision and utilisation.</p> <p>This issue is identified as a risk in response to Q3 above. The research and inquiry that may be used to consider the emergence of these trends would include the extent to which the allocation of resources and the construct of support packages within the NDIS falls within its eligible and agreed funding responsibilities. In order to do this the data definition, the way this is collected and the construction of the IT system must allow such investigations to occur. Their analysis will then form part of the overall actuarial modelling of the NDIS utilisation.</p>

		Other sources of research and inquiry will include feedback from planners and trial site managers and continued discussions with participants and both State and Commonwealth scheme stakeholders.
6	Have you been asked to provide actuarial information or advice to the National Disability Insurance Agency (NDIA) Board under subsection 180B(3) of the Act, and if so, the nature of the request and the advice provided?	<p>As Scheme Actuary I am invited to attend NDIA Board meetings, meetings of the Sustainability Committee, and Audit and Risk Committee and I have regular contact with members of the Board including the Chair.</p> <p>As part of my role I give advice to the Board. I have received no formal requests from the Board for advice.</p>
7	Provide an example of the type of risks and issues, under subsection 180B(4) of the Act, that you might report to the Board.	The link between eligibility, assessment and resource allocation is one that has been an ongoing issue for the scheme, and I have brought this to the attention of the NDIA Board. Other examples are (a) the availability and quality of data, and (b) the impacts of the bilateral phasing schedules with regard to emerging trends.
8	What are the data and information sharing arrangements between you as the Scheme Actuary and the NDIA, including the nature and frequency of information provided to you by the Agency?	<p>As part of my role I have a team within the NDIA – the “sustainability, actuarial and reporting team”. This team and myself have direct access to the NDIA IT system managed by DSS.</p> <p>My team has daily access to the unit record data base on scheme participants, the service utilisation and cost of supports.</p> <p>In the other direction, I am actively involved in the specification of data requirements and the collection and recording of information.</p>
9	Provide information on the reliability of data over the first 12 months of the Scheme given the likelihood of volatility from quarter to quarter with the relatively small sample sizes and teething problems in the rollout of the trials.	<p>There is a high degree of uncertainty in the ability to measure trial data against full scheme cost estimation. There are a number of causes of this uncertainty, including:</p> <ul style="list-style-type: none"> • the design of the trial sites, only two of which are designed as geographical full population trials allowing extrapolation to full scheme; • the participant phasing agreements in the bilateral agreements, which mean that even for the geographical trials emerging experience may not be representative of the whole area; • the adequacy of the national minimum data sets and other administrative

		<p>data on disability services; and</p> <ul style="list-style-type: none"> the previously mentioned difficulties with the NDIA information and data system. <p>The information available at the end of 12 months of the NDIS will be a significant improvement on the previously available data, which underpinned the Productivity Commission assumptions.</p> <p>Information collected will allow a more robust estimate to be made of full scheme cost, distribution of support needs and the requirements of a robust community system to support participants with a disability utilising mainstream and informal services.</p>
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10	What is your view of the accuracy and veracity of the data on 'estimated total clients' in Appendix A of the various bilateral agreements between the Commonwealth and State and Territory Governments?	<p>I have provided information on this in my first two reports.</p> <p>The bilateral agreements use a simplistic “number of participants” and “average package size” concept, broadly based on the aggregate scheme cost estimation by the Productivity Commission as amended by the Australian Government Actuary.</p> <p>While using the aggregate cost as a starting point is legitimate, the “average cost” approach does not account for the skewed distribution of support needs across the potential NDIS target population. It effectively assumes that all participants are the same. However it is well known that there is a broad distribution in required package size from a few thousand dollars up to several hundred thousand dollars.</p> <p>Accordingly, monitoring based on numbers and averages can overlook emerging trends in cost distribution - a significant risk to financial sustainability.</p> <p>In addition to this conceptual error, in my view the bilateral agreements have a number of risks emerging from inadequate modelling including:</p> <p>(a) for the South Australian trial site the agreements have underestimated the expected number of participants and also the average participant cost;</p>

		<p>(b) for NSW the agreements did not take account of the disproportionate number of large residential participants in the trial site, which have a particularly high individual cost;</p> <p>(c) for the Tasmanian trial site, no specific allowance was made for the age of participants – that is, all participants are aged 15-24 years and hence the adult cost of support should have been used, rather than the weighted adult and child cost.</p> <p>(d) in striking the “average package cost” the agreements did not allow for the margin in the largest packages for a contribution to the cost of accommodation capital.</p> <p>All of these risks are “trial-specific” they do not present an observable risk to the full scheme actuarial cost estimate.</p> <p>In terms of the specific accuracy of “estimated total clients”, it is possible based on the early trends that participant numbers will be somewhat lower than the bilateral estimates in Victoria and NSW, significantly above the bilateral estimates in SA, and broadly in line in for Tasmania. However, as discussed above, this is a spurious indicator without further information, and is not directly related to the ultimate cost of the scheme.</p>
11	<p>Provide information on the reliability of the data gathered by the NDIA, the way that this data is collected and collated, and any concerns you may have about what is and is not collected.</p>	<p>This question has been covered in my previous responses.</p> <p>As Scheme Actuary I have adequate input into processes to ensure that future data collection and processes will be able to meet the scheme’s requirements regarding assessment and monitoring of financial sustainability.</p>
12	<p>Provide information on your view of the importance of early intervention supports in ensuring the financial sustainability of the Scheme.</p>	<p>Early intervention is a critical component of the insurance principles on which the NDIS is based. By identifying early opportunities to mitigate the impact of disability the scheme can have a positive outcome both on the social and economic participation and independence of participants, and also on the medium to longer term financial sustainability of the system.</p> <p>Building of the evidence base and ensuring continuous monitoring and evaluation of scheme outcomes will assist the scheme to identify opportunities for early intervention and their cost benefit. An outcomes framework is being developed to provide the basis for this evidence.</p>

13	Provide information on your view of the importance of a competitive service provider market and the likelihood that over time, this competition will put downward pressure on package costs.	<p>Achieving an efficient price for services is a critical component of a sustainable scheme. A competitive market will help in this. A sustainable scheme requires choices on quality and price to be available to participants.</p> <p>By empowering participants with choice and control in the determination of their plans and outcome goals, and in the selection of service providers, the provider market must evolve to be the best value for money for participant packages</p>
14	Provide information on your view of the observation made in the second quarterly report to the Ministerial Council of Australian Governments Disability Reform Council that the distribution of Scheme participants by cost is 'a much more relevant' measure than annualised package average (page 16).	I reaffirm the views I have expressed in my reports. See also answer to question 10 above.
15	Provide any comment you may have on whether the number and cost of participants in each of the nine 'Functional Groups' is as you expected (see page 16 of second quarterly report).	<p>Based on the early data, there appear to be fewer than expected participants in the lower severity functional groups. It is possible that many of these participants were not receiving services under the previous National Disability Agreement, and so have not been targeted by the phasing arrangements in the agreements.</p> <p>Based on previous survey and census data there are certainly more people in the community with a disability than have applied for participant status. It is very important for the financial sustainability of the NDIS that strong community support allows these people to achieve positive outcomes using community and mainstream support.</p> <p>I also note that because these lower severity functional groups have relatively very small average package cost, their omission from the scheme makes little difference to the overall estimated aggregate cost.</p>
16	Do you have any comment on PricewaterhouseCoopers' research which shows that by 2025, the cost of doing nothing (i.e: business as usual) would exceed the cost of the NDIS?	I am familiar with this research. My understanding is that the projections of "doing nothing" were based on a range of possible assumptions and scenarios of future experience determined from the rate of cost escalation of disability services from the late 1990s until about 2010. The underlying cause of this cost escalation was the chronic breakdown of informal family support as ageing carers became unable to continue with their support - the resulting

		<p>“crisis situations” led to a shortfall in funding for necessary early intervention for other people with a disability. The combination of these two forces resulted in increasing cost and a diminishing coverage of emerging disability. The veracity of these projections would depend on which of these assumptions would have emerged in the absence of the NDIS.</p> <p>However it is certainly the case that based on these projections, the NSW government has injected a significant amount of money into the previous state disability system under the Stronger Together program. This funding injection has increased the number of people with disability receiving support and reduced the number of high cost crisis situations.</p>
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